

Message Text

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ACTION EB-08

INFO OCT-01 ARA-14 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 DOE-15 H-02 INR-10 INT-05 L-03
NSAE-00 NSC-05 OMB-01 PM-05 ICA-20 OES-07 SP-02
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E.O. 11652: N/A
TAGS: EINV, EMIN, ENRG, EC
SUBJECT: INITIATION OF PETROLEUM PRODUCTION BY CEPKO

REF: QUITO A-20

1. THE CITY ECUATORIANA PRODUCTION COMPANY (CEPKO-A SUBSIDI-
ARY OF THE U.S. FIRM CITY INVESTING), IN ASSOCIATION WITH THE
STATE PETROLEUM CORPORATION (CEPE), BEGAN LIFTING CRUDE ON
JUNE 1, THUS SHIFTING FROM THE STATUS OF AN EXPLORING FIRM TO
THAT OF A PRODUCER, UNDER GOE ACCOUNTING PROCEDURES.

2. CURRENTLY CEPKO AND CEPE ARE FILLING STORAGE TANKS AND
THE 75-KILOMETER PIPELINE WHICH CONNECTS WITH THE TEXACO/CEPE
TRANS-ANDEAN PIPELINE. CEPKO/CEPE WILL WAIT UNTIL JUNE 22 TO
MOVE CRUDE THROUGH THE TRANS-ANDEAN PIPELINE, COINCIDING WITH
CEPE'S SIXTH ANNIVERSARY, AT WHICH TIME CEPE INTENDS TO
HIGHLIGHT THE START OF PRODUCTION. CEPKO AND CEPE ARE STILL
WORKING OUT A FEW AGREEMENTS NEEDED BEFORE LIFTINGS MAY BEGIN
ON JUNE 22, BUT CEPKO EXPECTS TO FINALIZE ALL ISSUES BEFORE
THEN.

3. CEPKO/CEPE WILL BEGIN PRODUCING ABOUT 7,000 BPD ON
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JUNE 22, AND 8,000 BPD WITHIN A FEW MONTHS. CEPKO HAS
SOLE OWNERSHIP OF ONE FIELD, WHILE CEPKO AND CEPE WILL
SHARE ANOTHER FIELD IN A 65/35 RATIO. CEPE'S 35 PERCENT
SHARE SHOULD AMOUNT TO ABOUT 1,500 BPD.

4. LIKE ALL PRODUCING OIL COMPANIES IN THE COUNTRY,
CEPKO MUST SELL A PORTION OF ITS PRODUCTION FOR LOCAL

CONSUMPTION. UNLIKE TEXACO, WHICH RECEIVES ONLY \$1.48 PER BARREL OF CRUDE DELIVERED FOR DOMESTIC CONSUMPTION, CEPSCO WILL RECEIVE \$6.23 PER BARREL. THIS HIGHER PRICE REFLECTS THE LARGE INVESTMENT (ROUGHLY \$45 MILLION) NEEDED TO DEVELOP THE HEAVY CRUDE IN CEPSCO'S CONCESSION. OF THE \$6.23 SALES PRICE, \$3.52 IS ATTRIBUTABLE TO AMORTIZATION AND \$1.40 TO PRODUCTION COSTS. THE BALANCE COVERS THE ROUGHLY 50 CENTS TRANSPORTATION FEE FOR USING THE TRANS-ANDEAN PIPELINE, AS WELL AS A PROFIT MARGIN.

5. CEPSCO/CEPE EXPECT TOTAL LIFTINGS TO REMAIN AT 8,000 BPD FOR THE FORESEEABLE FUTURE. AFTER A SIX-MONTH TEST PERIOD, THE MINISTRY OF NATURAL RESOURCES WILL PROBABLY SET FOR CONSERVATION PURPOSES A MAXIMUM CEPSCO/CEPE PRODUCTION OF 10,000 BPD. THIS NEW PRODUCTION (THE FIRST IN THE ORIENTE BY ANY FIRM OTHER THAN TEXACO, GULF AND CEPE) WILL BE ADDED TO THE 210,000 BPD GOAL CURRENTLY SET FOR THE TEXACO/CEPE CONSORTIUM ALONE.
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